SBL Industry Survey Report

Sept 2021

How Securities-Based Lending Can Generate New Revenue While Accelerating Evolution to a Holistic Advice Model

Insights and Action Steps from the 2021 Broadridge SBL Industry Survey

When we look across our customer base over the last year, everyone experienced growth - in many cases double-digit growth. This is backed up by the regulatory bodies such as FINRA.

Two economic trendlines underscore this surge in demand:

- The ongoing, relatively low interest rate environment
- The still-robust bull market

High investment portfolio market valuations have "upped investors' appetite to collateralize their portfolio."

Executive Summary

Drawn from the shared insights of SBL industry leaders in the Broadridge industry network and other sources, this SBL industry report reflects the views of decision makers responsible for directing and executing wealth lending strategies for a select number of leading U.S. banks and wealth managers currently underwriting more than $100 billion in SBL business.

Our report reaches five conclusions that, in turn, lead to specific takeaways for institutions and advisors looking to explore the trends and opportunities currently propelling the SBL marketplace.

GROWTH: WITH SBL, GROWTH IS MULTI-DIMENSIONAL

A broader understanding of how successful lending strategies are measured empowers both decision makers and relationship managers. We show how growth dynamics are leading to a variety of patterns among loan commitments, utilization, drawdowns and outstanding balances.

EMERGENT "LENDING ADVISORS" SIGNALING THAT "HALF A BALANCE SHEET" IS NOT ENOUGH

Client interest in "Financial Wellness" during 2020 lit a fire under many financial advisors who have traditionally stayed mainly focused on the asset side of the client's balance sheet. As logical as that habit might be – that's where the investment assets are – delivering a personalized experience to clients requires a broader vision of what a holistic wealth practice should deliver. This report explores how SBL thought leaders are motivating sales teams to consider the whole picture: both assets and liabilities.

STREAMLINING SBL PROCESSES DRIVES SBL DEMAND

Digital streamlining measures, like using DocuSign in SBL underwriting, are becoming pro forma in the marketplace. As digitization displaces time-consuming tasks, accelerated by the need to remotely service clients, survey respondents indicate that neither institutions nor clients have any desire to revert to a time when loan approvals could take weeks and required cyclical meetings and approvals.

SBL'S DIGITAL DELIVERY SEAMLESSLY INTEGRATES WITH THE WEALTH MANAGEMENT INNOVATION AGENDA

Survey respondents detail how they have accelerated innovation and that SBL digitization is a priority for scalability, empowering Lending Advisors and streamlining an end-to-end loan origination process. Machine learning and data analytics will be incorporated into wealth management practices over the next 18 months, making SBL ripe for personalization and differentiation across an increasingly diversified and competitive arena.

EMERGING RETAIL WEALTH COHORT LIKELY TO PLAY A ROLE IN SBL MARKET

Driven by a surge in wealth transfers, aging Gen Xers and maturing Millennials, SBL's appeal is growing. A burgeoning, digital-savvy Mass Affluent cohort is signalling that it wants access to the same asset classes, investment strategies and products – like SBL – to which institutions and high net worth investors have had access for decades.

Introduction

As we emerge into a new reality, the forces of social distance and the need to reduce physical contact have driven a rapid acceleration of digitization and process automation, the benefits of which are here to stay.

While most were already on this path, the rapid adaptation to a working world of more personalized communication with less physical contact has been significant. In the case of securities-based lending, systems that long-needed modernization are at some point in the process of being digitized and streamlined – making SBL even more scalable and accessible than before. As one wealth management leader summarized it at the height of the pandemic: "Our transformation agenda has accelerated. We have undergone ten years of process change in ten weeks".

The fundamentals still stay true:

- Generational wealth shifts are driving a force for change in wealth management
- Personalization as a differentiator is opening the idea of holistic financial wellness strategies that consider both sides of the client's balance sheet.
- Facilitated by the rapid evolution of technology, mass affluent and retail investors are demanding access to a breadth of products and services that was previously only open to HNW and UHNW investors.

Advisors need the technology and operational support to respond to these market dynamics in a way that informs and enables efficient, personalized service delivery and growth. Looking ahead, continued advances in machine learning and data analytics will transform the ability of individual advisors to access and deliver SBL in a safe and tailored way to clients who need and will use the liquidity released.

More than that, intelligent lending and holistic wealth management advice will enhance service value, improve client relationships and attract assets in a highly competitive market.

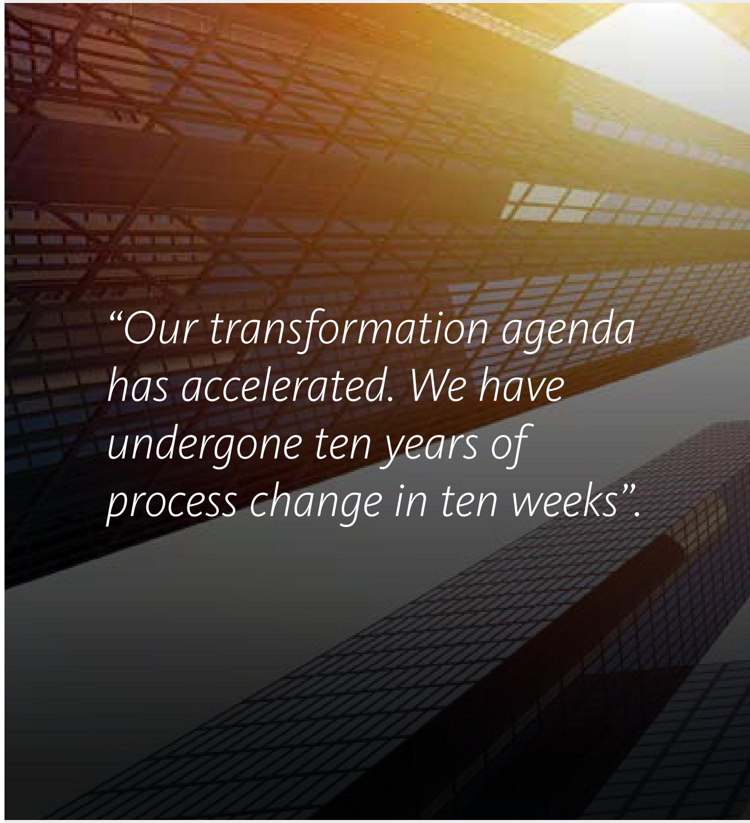
Generational wealth shifts

Democratization of wealth products

Rapid technological change

Personalization

Holistic financial wellness



What our survey growth metrics show

Broadridge's SBL technology manages over US$ 100 billion in SBL loan books. As we listen to growth signals from the market, many of our clients are experiencing increasing demand and more sophistication in the business; whether that be increased leverage of AUM, extension into the populous retail segment or lending against new asset classes, including insurance linked assets.

Loan volumes are on the climb...

All but a handful of our industry experts expect a growth year ahead. More than a third of respondents see commitments growing by more than 20%, with more than half of all respondents expecting 10% plus growth.

Outstanding balances are expected to grow, but less dramatically – more than a quarter predict over 20% growth; more than a third expect outstandings to grow by more than 10% in the coming year.

Drawdowns are harder to predict, and our data shows that most banks expect that they will drive growth through more loans as opposed to higher utilization.

...across both brokerage and private banking

How quickly is SBL penetrating the brokerage and private banking world? Our survey shows steady potential growth in both segments:

Wealth management / private bank accounts show strong growth momentum. Today, only 5% of our respondents have more than 10% of their wealth management accounts pledged against an SBL loan. There is a focus across the board on the SBL opportunity - driving growth and building SBL into a mature component of the wealth business line.

CHART 1

Expected 12-month book growth

"Closing on SBL loans has been instrumental in our clients moving assets over to us. SBL loans are well received by our clients from an all-round wealth management experience"

Broadridge customer

Chart 3 shows how the profile of SBL uptake in these accounts is expected to change in the next three years. Penetration will have increased with almost all having more than 2% account penetration, likely reflecting the maturation of SBL as a banking product.

In the case of brokerage accounts, Chart 4 is more striking. Current penetration is lower in brokerage accounts, but everyone believes that is going to change over the next two to three years. Even then, SBL in brokerage will still be catching up with the private banking SBL business.

THE SIGNAL IS CLEAR

Financial institutions without an SBL offering risk losing AUM as SBL usage becomes more common. The potential for growth is significant with lenders only scraping the surface of this lucrative, secure, in-demand product.

And that all makes sense...

...when more than 80% of our respondents see a correlation between providing SBL products and AUM growth. Having an SBL offering attracts new AUM to the business; SBL creates stickier AUM balances since the assets are preferably held by the lender.

CHART 2

Do you see a correlation between providing SBL products and additional growth in AUM?

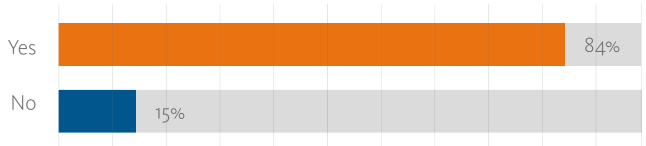


CHART 3

WM/PB : SBL Account Penetration

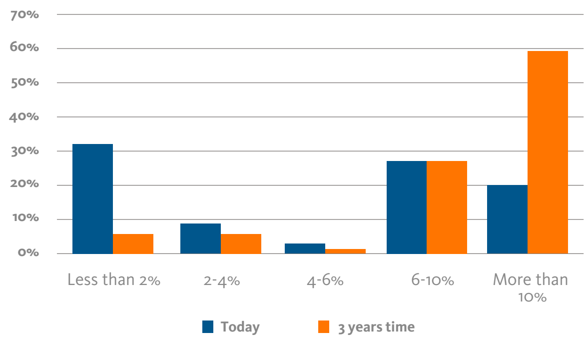
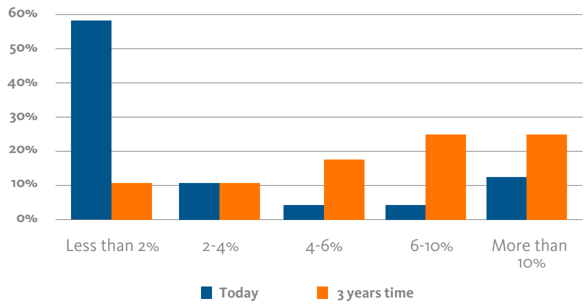


CHART 4

Brokerage : SBL Account Penetration



It takes skill to build a holistic wealth practice

Despite client preferences for new ideas, many advisors default to the same catalogue of investment solutions. Our survey suggests how advisors can embrace SBL as a natural extension of the capabilities that they already employ.

Why not all advisors are in love with SBL. Yet

Unsurprisingly, advisor reluctance tops the poll of barriers to SBL growth. Some advisors feel a fiduciary conflict when considering SBL as a borrowing strategy. In every borrowing situation (e.g., HELOC, margin loan, SBL), actions can be taken to address these concerns, particularly in relation to anticipating and responding to down market conditions and potential margin call events.

Why advisors find SBL complicated

Traditionally, SBL has involved detailed, manual processes requiring multiple iterations between the client, the advisor and the bank. Think cyclical loan evaluations, offers, signing requirements and release processing with lots of friction, bottlenecks and time delays. A positive consequence of the pandemic has been the acceleration of digitization – and streamlining of SBL processes as a result.

TAKEAWAY

Safeguards can be put in place to mitigate client risk. Loan commitment amounts can be flexed to reduce the risk of a margin call; SBL loans can be backstopped with a secondary loan (e.g. a HELOC) to facilitate switch out should that be appropriate. Measures like this create space and enable advisors to offer secure and cost-effective SBL, generate savings and to push beyond asset allocation to comfortably deliver a more holistic wealth management offering.

CHART 5

Advisor Reluctance - Three Components

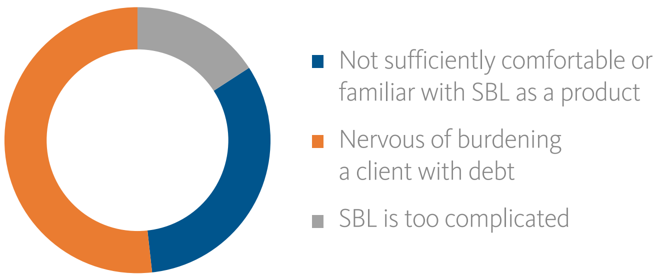
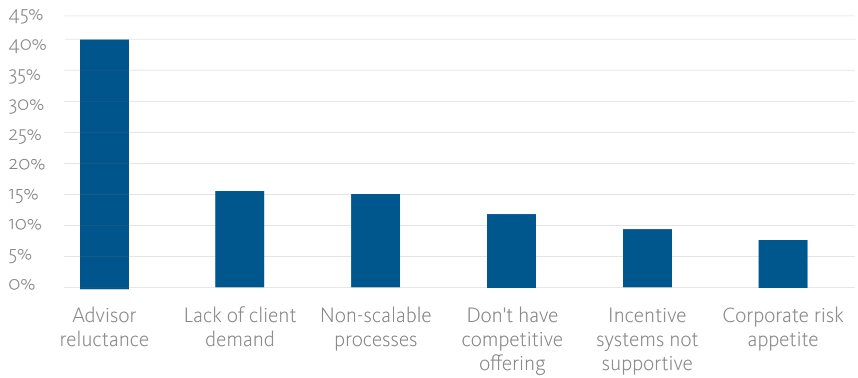


CHART 6

What is hampering SBL growth?



Where before, facilities like DocuSign were offered on an exception basis, they are now the norm. Friction has been stripped out of the SBL workflow because of reduced resistance to automation and change, making digitization projects easier to sell and to manage.

Banks that are successfully maximizing SBL growth have moved closer to end-to-end process streamlining, right through to the advisor workstation. These banks know that enabling and informing the advisor and making the SBL application process smoother and faster are real business differentiators.

Why debt and wealth creation often go hand in hand

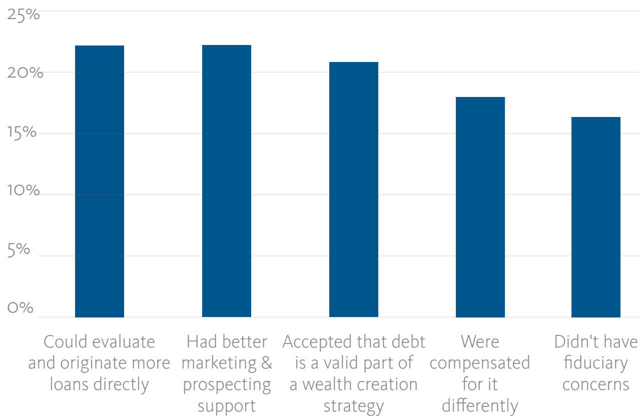
As our survey shows, some advisors struggle to justify the seemingly conflicted relationship between debt and wealth creation. However, the data shows increasing demand for the liquidity available through SBL. The various reasons behind SBL loan applications (bridging finance to avail of an investment opportunity, working capital, payment of tax bills) also point to the need for advisor-involvement.

Advisors can differentiate their service by actively managing value on both sides of a client's balance sheet, especially for those with non-SBL debt. The truth is that investors who want or need liquidity will find it. If their advisor is not making efficient credit available to them, they will find an advisor who will.

Underpinned with sensible suitability testing, advisors need to be able to offer SBL as part of their general service in a frictionless, comfortable way. Directly from their workstations.

CHART 7

Advisors would sell more SBL if they...



Getting advisors comfortable with SBL

Lack of familiarity with SBL is impeding advisor uptake, even though their clients are interested in SBL. Those advisors with a better understanding of the product and who are equipped with SBL sales tools and processing ease will benefit from upsurging demand.

Technology and operations support are the most significant pain points for dissatisfied advisors. Just 35% of these advisors say their firm's technology offerings have improved in the past year and just 12% have had problem-free experiences with their firm during the past year.

Mass affluent represents the majority of investor households

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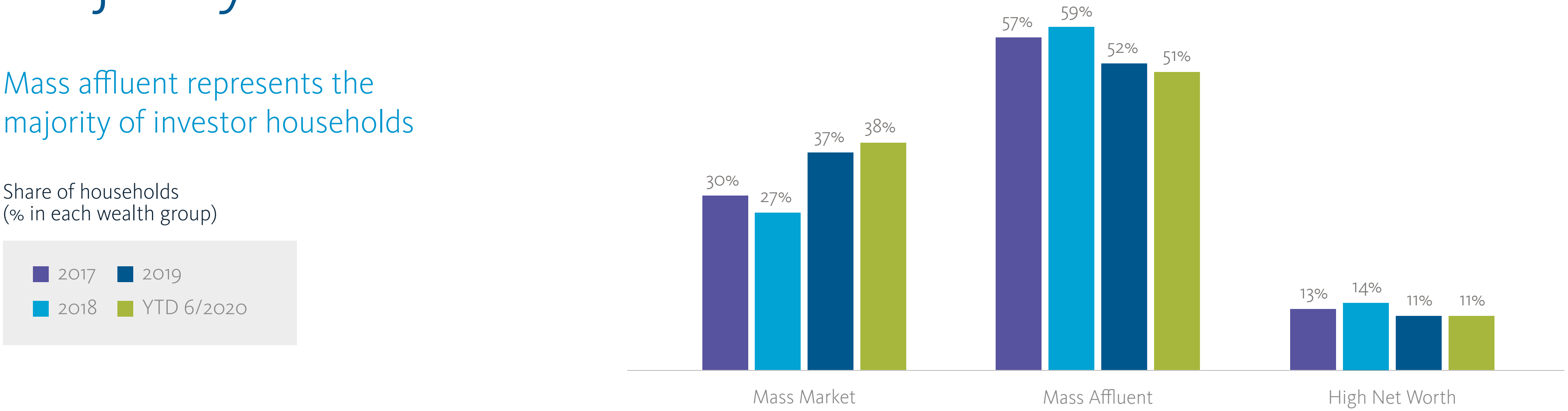
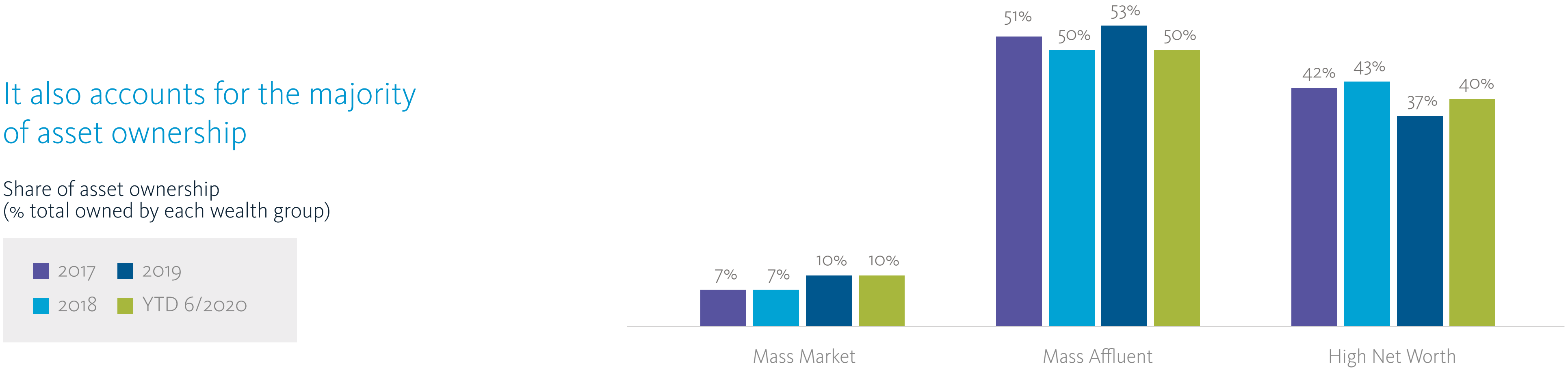
Share of households
(% in each wealth group)



It also accounts for the majority of asset ownership

Share of asset ownership
(% total owned by each wealth group)



Post-pandemic, lenders are doubling down on process streamlining with investment in advisor training and sales support right through the business line. Successful SBL lending is based on suitable lending to borrowers who will utilize their loan. The advisor is the conductor in this process.

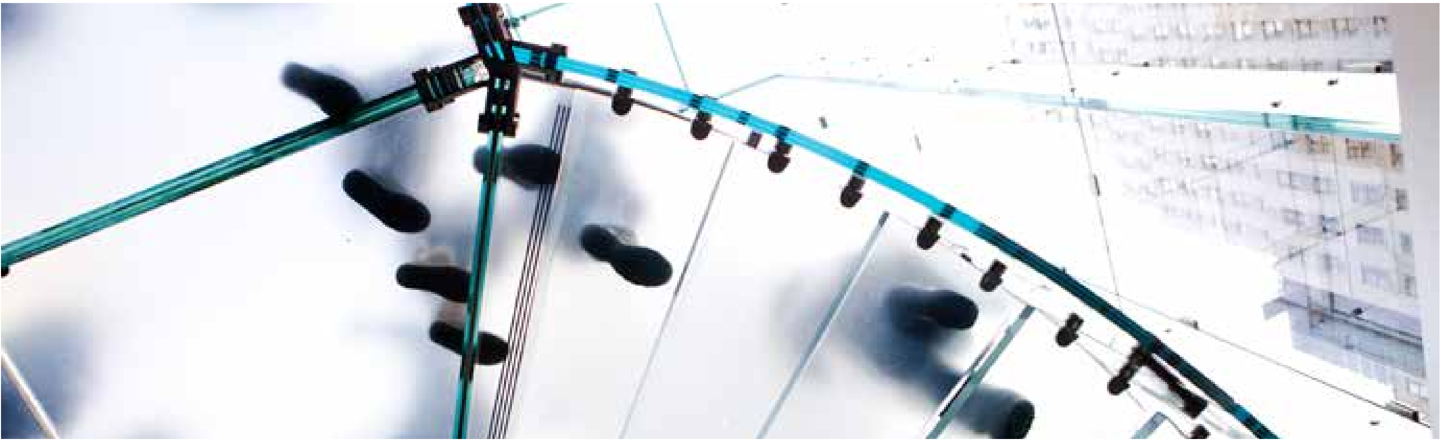
The emergence of the Lending Advisor

"Lending Advisor" is a phrase we are hearing more of in the market. We believe that it articulates well what we are all trying to do – to support existing financial advisors to expand their services holistically. The overall challenge is creating more Lending Advisors and supporting them with the tools and training to enable appropriate lending and debt consolidation.

According to Cap Gemini, about a third of mass affluent clients are looking for other value-added financial services such as real estate investment advice, estate and tax planning, access to credit and legal consultation. This broader approach to financial wellness typically includes a balance sheet approach that incorporates both assets and liabilities; strategies that include asset protection, investment growth as well as access to credit, often for the purpose of debt consolidation.

The "Lending Advisor" is starting to emerge in the context of SBL and wealth lending as a specialist advisor to support clients with advice on financial planning, investment management, lending strategies and risk management. They match the solution to the need: wealth management strategy and product selection are based on the client's current financial situation across key areas including banking, investing, retirement planning, risk management, estate planning, etc.

When a client needs access to credit, advisors need to be able to differentiate the appropriateness of a more traditional credit solution such as Home Equity Line of Credit (HELOC) and other credit products. The Lending Advisor of the future will be proficient at recognizing situations in which an SBL loan may be more appropriate and represent better value for the client.



Lesson from the front line : how lenders are supporting the evolution of Lending Advisors

Committed to supporting the advisor's SBL experience

Providing the right education and training to advisors, helping them understand how to identify when SBL is the right option for a strategic credit need, creating a seamless experience to put an SBL loan in place for the client, and equipping advisors to navigate on-going servicing and monitoring.

SBL can enable the advisor to assist the client to explore their dreams and desires without having to liquidate their portfolio

SBL keeps investment strategies on track while unlocking liquidity for personal emergencies, funding business requirements, real estate purchases, luxury acquisitions and more.

Emphasizing how SBL provides an added measure of liquidity

It's often easier to manage a client's credit exposure through an SBL loan than through a mortgage or HELOC. With an SBL loan, the client can continue to trade their portfolio, with daily monitoring. An easy switch to another lending solution is enabled if market performance warrants a change in strategy.

Incorporating SBL into a client's digital experience

Digitized SBL provides an interactive gateway to credit for the client. With access to daily collateral valuations and monitoring of a client's borrowing power, advisors can become more knowledgeable and effective in delivering a more holistic, strategic and personalized experience to each client.

Takeaway

Advisors need better training, marketing and prospecting support in the context of SBL. They must be able to quickly assess the suitability of their clients and, ultimately, to evaluate and originate loans with their clients in the meeting. On their part, advisors need to be more amenable to debt as a valid part of wealth creation and a financial wellness approach.

Strategies for growth

Our SBL leaders are looking to drive their businesses with both market growth and internal efficiencies. Seemingly at odds with our earlier picture of low penetration of existing accounts, many lenders are looking to attract new AUM to drive SBL adoption. Our respondents know that wealth clients who are looking for credit are mobile. Offering SBL as part of a balanced wealth management service enhances the ability to attract new assets on the move; lenders oriented this way go beyond asset management to promote holistic wealth protection and creation strategies.

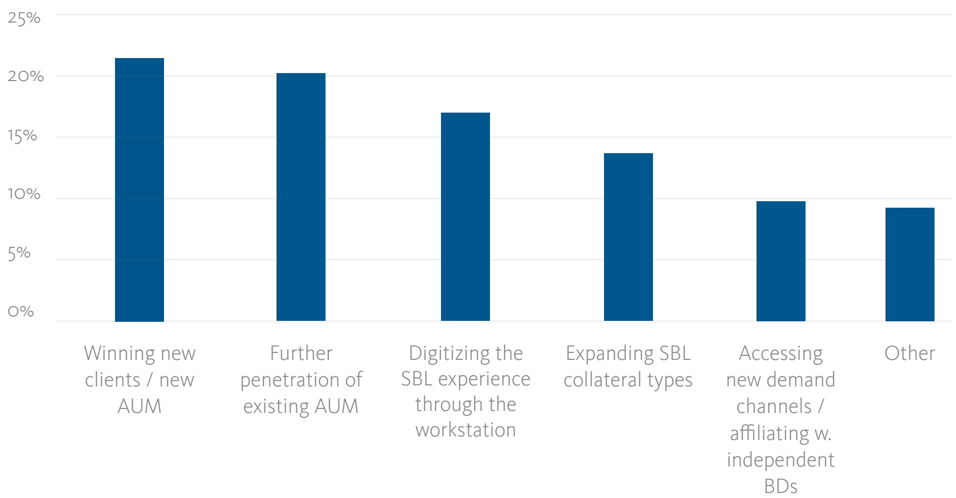
Digitization and offering SBL directly from the workstation are also key strategies for growth. Our chart shows that lenders are considering multiple approaches to growth. From attracting new AUM and selling to existing clients, to the streamlining of process, enabling the advisor and extending the range of potential collateral types – all options are up grabs. As the business becomes more democratized with retail borrowers, the ability to focus sales and marketing effort on suitable and profitable prospects in a scalable way becomes increasingly important.

The right platform will enable the sales channel while ensuring scalability and comprehensive risk management and stress testing. Accelerated digitization of SBL processes helps to deliver an enhanced client experience, balanced credit risk exposure and optimized profitability.

Just a few years ago, SBL loans were available only to the select few. Today, by gaining an understanding of the SBL market and the borrowers for whom it is appropriate, advisors can offer SBL and credit as part of their core wealth strategy in a secure and differentiating way. After all, which investor is looking to sell in the current, strong market conditions.

CHART 8

Strategy for growth



From friction to digitization – all the comfort and reward without the inconvenience

As lenders educate and empower advisors, they are also focused on stripping friction out of their SBL processes and systems. The key deliverable? Shorter time to fund availability. Over the next three years, our respondents expect to shave days off the time it takes to process a loan.

Our survey acknowledges that operational streamlining and enabling the origination of loans directly from the workstation are key competitive drivers for SBL. Clients are no longer prepared to wait for days or weeks for access to liquidity. Similarly, advisors want the capability to deliver SBL to suitable clients in the timeliest fashion.

SBL front-runners are going beyond vanilla end-to-end SBL processes to deliver rich features like a pre-qualified pipeline for the advisor, including personalized loan evaluations and tailored marketing strategies.

Empowering advisors to have sales conversations with suitable and pre-qualified clients – and having that loan fully underwritten in days with limited effort – is the key to growing SBL in a safe and scalable way.

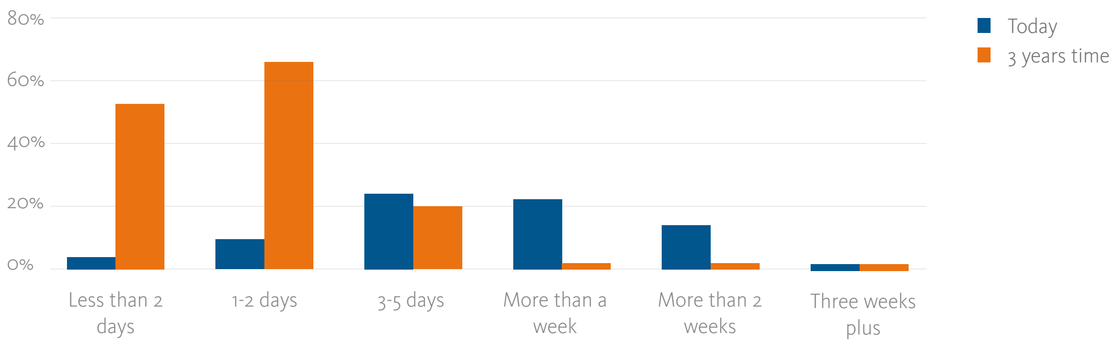
A two-day time-to-loan standard

In three years, the vast majority (84%) of our lenders plan to be able to process SBL loans within two days – up from just over 20% today. All expect to originate and fund SBL loans within at least five days – from a base of 63% offering this timeline today. This change is possible only with dedicated investment in process optimization, digitization and programmatic enablement of the advisor and their sales channel.

Where time-to-loan is the time from first application to full approval, including executed loan documentation

CHART 9

Reduction in time-to-funding over the next three years



Accelerated innovation

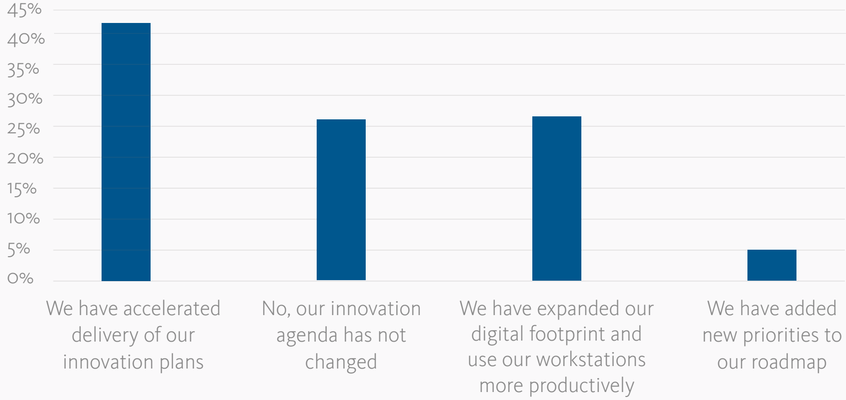
COVID-19 prompted more than three-quarters of our respondents to adapt their innovation agendas – whether through accelerating delivery, by expanding the digital footprint and improving workstation productivity, or by adding new priorities. Post-pandemic, the business is more agile and streamlined. It turns out that we were a lot more flexible than we thought. It remains to be seen if we can stay in this Innovation-Mode and maintain the speed of adaptation and change that we have seen in the last eighteen months.

SBL continues to be a target for innovation dollars, with over a third of respondents dedicating at least 10% of their organisations' innovation budget specifically to SBL. Lenders are focused on minimizing time-to-loan and enabling the advisor sales channel, all while maintaining tight credit and operational risk control. Fully digital onboarding is being supported with rich advisor dashboard data and capabilities to encourage seamless lending.

The goal of advisor-led business growth supported by streamlined end-to-end processes and sophisticated credit risk management is in sight.

CHART 10

COVID-related innovation changes



Evolving SBL with Broadridge

DRIVING BUSINESS GROWTH AND PERSONALIZATION WITH MACHINE LEARNING

The incorporation of machine learning and analytics into wealth management is well underway. For SBL, the journey is just beginning as we look to personalize marketing efforts, drive SBL growth and improve yield.

Our machine learning algorithms are unlocking value in the SBL business with automated prospect qualification and pipeline creation. Sophisticated models can scan loan books for churn potential, prospective new business and debt consolidation opportunities. Models include yield forecasts, loan utilization prediction, churn prediction, propensity to borrow and sophisticated borrower segmentation/classification.

By harnessing the power of the data already on the workstation, advisors and lenders alike can better understand the client base and grow the book with improved lending, all while protecting AUM balances.

Delivering this rich information as usable insights and next action signals creates a true step change in the power of Broadridge's SBL technology to deliver business growth, robust credit risk management and Lending Advisor success.

WEALTH LENDING NETWORK

Until now, SBL has been the domain of those advisors and wealth managers with a bank affiliation. Broadridge's Wealth Lending Network opens up the SBL marketplace – helping unaffiliated advisors to connect their investors with lower cost liquidity. Advisors or lenders who are new to SBL or have low-volume, accommodation SBL business can now offer SBL as a product with none of the heavy technology investment. We believe that the Wealth Lending Network offers an outstanding starting point for those wishing to explore the potential of SBL in their businesses.

Understand the customer

Forecast and gain insights into the bank's SBL book and understand the current borrower base to inform and deepen interaction and engagement

Grow the Book

Increase SBL penetration in the advisor and client base by identifying high propensity investors, and by supplying advisors with right-time, right-channel personalized messaging integrated with end-to-end loan origination, directly from the workstation

Protect loan balances

Reduce churn of lines of credit by identifying lines-at-risk and supplying "did you know" and "before you go" messaging that is personalized to the borrower

Conclusion

Day-by-day, month-by-month, we are seeing increasing demand for SBL. Across the business – from Ultra HNW through to the Mass Affluent and retail segments - successful investors are tapping into the lending efficiency offered by SBL. The recently established Broadridge Wealth Lending Network serves as a gateway for increasing demand from RIAs and wealth managers without an affiliated bank. Those who don't see demand for SBL in their business are at risk of being left behind as clients with a lending requirement migrate to those institutions offering low-cost Securities-Based Lending facilities.

Lenders tapping into the SBL opportunity are streamlining their loan operations – to write loans faster, give clients an enhanced on-boarding experience and, most of all, enable the advisor to drive their businesses with loan suitability and rich data that enables personalization and sales efficiency.

End-to-end SBL technology with intuitive dashboards, data-driven selling signals, client self-service and comprehensive credit risk management, as available with the Broadridge SBL Platform, are prerequisites for scaling a customer-driven, holistic service model.

As we see more market entrants, we hope that you too will leverage Broadridge's leadership to build a robust, holistic and client-led business.

"Our mass affluent customers want to benefit from the same products on offer to (U)HNW investors. With the right technology on our side, and the appropriate buying signals on theirs, there is no reason that can't happen."